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INTEGRATED CATTLE MARKETING

A BETTER WAY



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INTEGRATED CATTLE MARKETING

A BETTER WAY

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Does it concern you that only one or two prospective buyers bid on your cattle?

Does competitive pricing mean more to you than just one or two bids?

Do you wish you had access to more and better market and price information?

Do you believe your profitability could be improved if you integrated into feeder cattle growing, cattle feeding, meat packing, or marketing beef through producer-owned retail stores?

Have you found the costs of purchasing land, buildings, and equipment for integration to be prohibitively high?

If you answered yes to any of the above questions, the information here will interest you. You will learn how you and other cattlemen, through a producer owned and controlled cooperative, might: (1) integrate forward without investing in expensive land, facilities, and equipment, and yet enable you to retain your decisionmaking independence and flexibility; (2) attract more cattle buyers for your cattle and increase price competition; and (3) improve your access to additional market and price information.

What a Cooperative Can Do for You

A producer-owned cooperative provides the organizational structure to accomplish two objectives: (1) pool the necessary resources to integrate into feeder cattle growing, cattle feeding, meat packing, and meat retailing; and (2) effectively market cattle and beef for its member-owners. The cooperative is controlled by its members who elect a board of directors to represent them in establishing policies and in supervising the cooperative's hired management.

What Contract Integration Offers

Contract integration allows you or your cooperative to shift to others the risks associated with investments in expensive land, facilities, and equipment required in an integrated marketing operation. You retain ownership and control of your cattle through the cooperative, but you contract with individuals or firms for certain services on a custom or fee basis. These services include growing, feeding, and even meat packing.

Other individuals or firms are willing to perform these services for you because they are specialists. They can operate on a larger scale that brings efficiencies not attainable by you or your cooperative on a smaller scale.

And you share any profits resulting from owning cattle further in the production-marketing channel.

You Have Flexibility and Options

Contract integration allows you to decide whether, when, and how far to integrate forward. With this integrated marketing opportunity, you have considerable flexibility and

several options. You can choose any combination of functions to do yourself or have your cooperative contract to have others perform them.

For example, you can produce and market light feeder cattle and calves (400 to 600 pounds) through your cooperative, indicated by A in the diagram, page 4. Or you can have your cooperative contract for one, two, or all three of the next functions indicated by B, C, and D. You can have your cooperative contract for feeder cattle growing (B) and then sell your heavy feeder cattle (600 to 800 pounds) to a cattle feeder (the next marketing stage). Or you can tell your cooperative to contract further for cattle feeding (C) and market your slaughter cattle to a meat packer (the next marketing stage). Your fourth option would be to have your cooperative contract for slaughtering, buy the carcasses, and market them to a further processor (the next marketing stage).

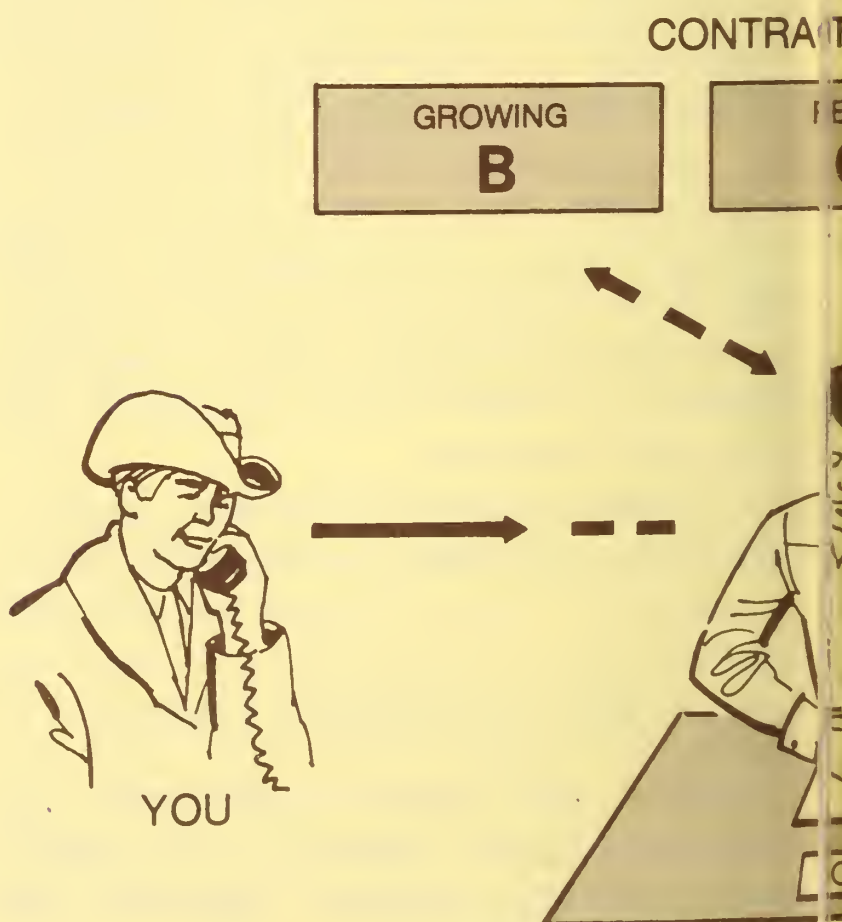
You can bring your cooperative into play at any one or all of the contracting options—B, C, or D. Whether you decide to market light feeder cattle, heavy feeder cattle, or slaughter cattle, your cooperative markets them for you. But you decide when to market and how much integration services you want. You own the cattle throughout the integration process, until the cattle are marketed or until your cooperative purchases beef carcasses.

All beef carcasses from custom slaughtering members' cattle are purchased by the cooperative. Price is based on the carcass beef price at a predetermined time and place, plus or minus premiums and discounts for quality variations from the base price. You receive as accurately as possible what your carcasses are worth, rather than receiving the same price for all carcasses regardless of differences in quality.

Your Cooperative's Responsibilities and Options

Your cooperative coordinates all contract integration activities. It identifies and selects feeder cattle growers, cattle feeders, and meat packers who will grow, feed, and slaughter cattle, respectively, on a custom or fee basis. You appoint the cooperative as your sole and exclusive agent to negotiate custom contracts and the cooperative handles negotiations for you.

Your cooperative weighs your preferences against the preferences of custom or contract operators (growers, feeders, and meat packers). It is responsible for comparing costs among custom operators and between producers and custom operators. It ensures you are attempting to meet the needs of custom operators (for example, trying to deliver large, uniform, and healthy lots of cattle at the proper time and place), yet

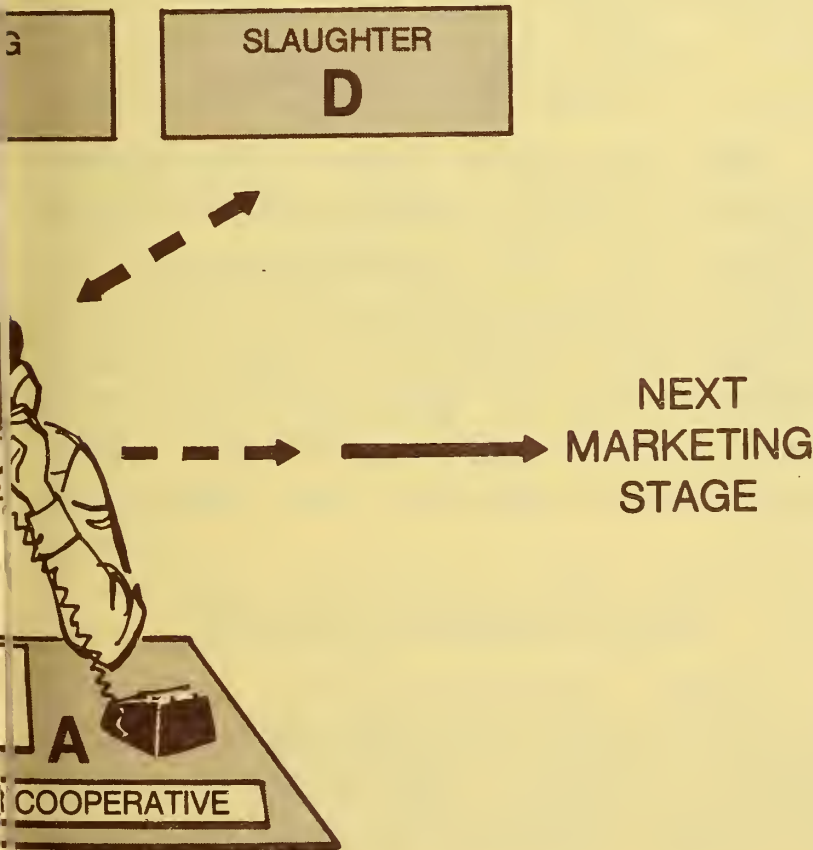


maintains your control of the integration process.

Your cooperative, in conjunction with your preferences and needs and those of custom operators, establishes guidelines for growing, feeding, and slaughtering cattle. That includes guidelines for you when delivering cattle and recordkeeping requirements of custom operators. It negotiates the services custom operators provide and the costs or charges for each service.

As important as negotiating the initial contract, your cooperative monitors contracts to ensure all parties are complying with contract provisions. Your cooperative monitors contracts in force and oversees the entire integration process. It then is in a good position to evaluate contract provisions and custom operators, and to make necessary adjustments in subsequent integration activities.

SERVICES



Your Cooperative's Responsibilities and Options

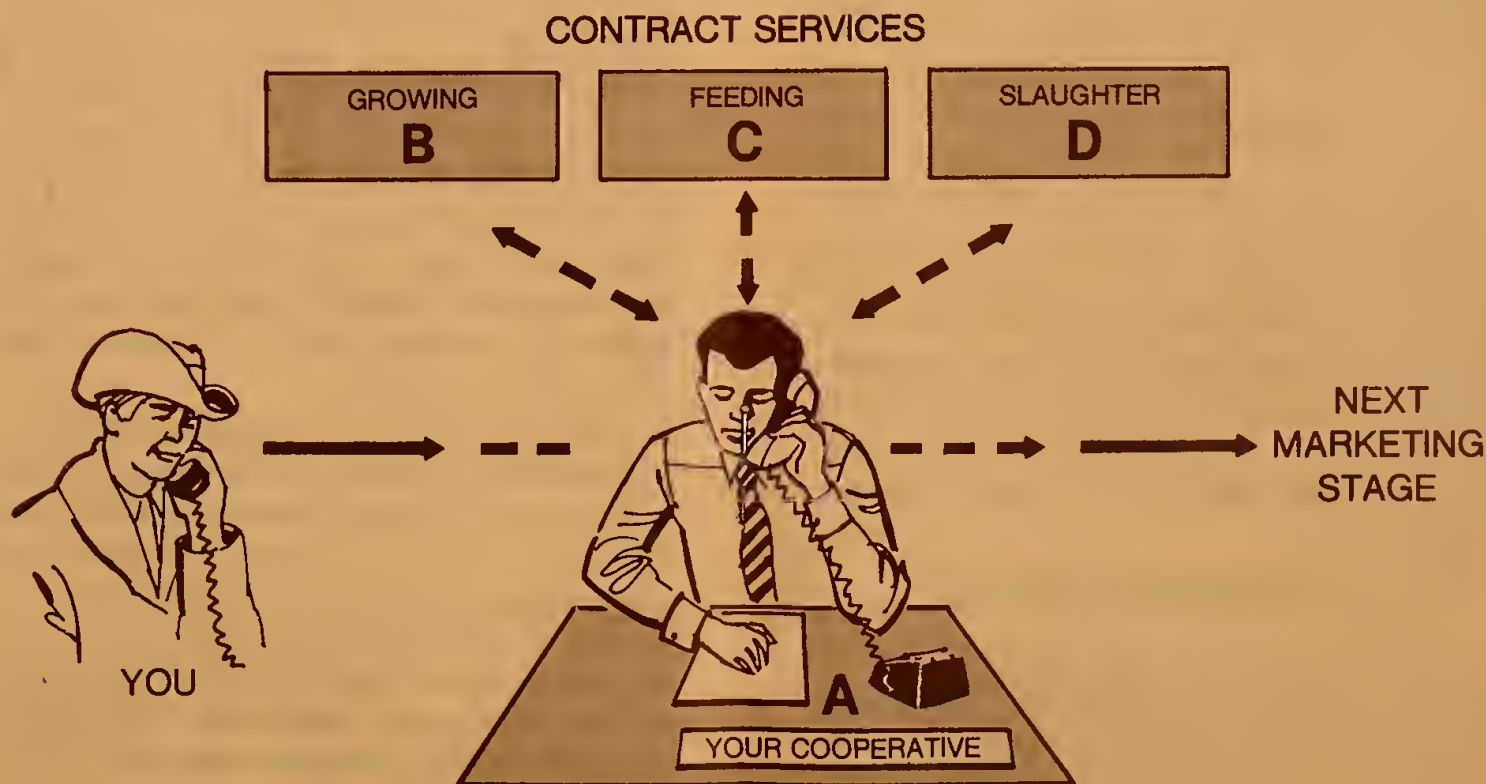
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In addition to responsibilities regarding contract integration through growing, feeding, and slaughtering; your cooperative has some independent integration and marketing options. The board of directors and management decide on any further processing of beef carcasses and the method of marketing beef. If your cooperative decides to further process beef, it will contract to have carcasses processed to cooperative specifications on a custom or fee basis.

Further processing expands the type of customers your cooperative can serve. It may have carcasses divided into wholesale cuts, retail cuts, fabricated into other products, or have some meats cured or smoked, among other options.

Whatever beef products are produced, your cooperative has the option of marketing beef itself or having others market it. Food brokers and (probably) meat packers would market cooperative beef on a commission basis. However, your cooperative may choose to market beef directly to consumers or to wholesale or retail distributors.

How Cattle Are Marketed

Your cooperative markets all your cattle regardless of whether you decide to integrate forward. You and your cooperative formalize the commitment to market all cattle through your cooperative by signing a marketing agreement. Marketing agreements enable your cooperative to create larger, more efficient markets that attract more buyers.

Buyer Competition Increases

Large numbers of cattle are required to operate regularly scheduled and economical markets that attract many buyers. A marketing method that can serve cattlemen in a

wide geographic area, attract many buyers, yet be a relatively low-cost operation is a telephone auction.

Telephone auctions, commonly referred to as teleauctions, are conducted over a conference telephone call (several buyers listen on the same line). Teleauctions expand the market area by allowing buyers from a wide geographic area to bid on cattle without having to be present at the auction site. They are as close to the auction as their telephones. Buyers either receive a written description of cattle to be auctioned prior to the auction or an oral description over the telephone just before each lot is auctioned. They decide what price they will pay for a sale lot of cattle and bid over the telephone. Buyers save travel time and expenses, and because teleauctions can sell a large number of cattle in a shorter time than conventional auctions, buyers save buying time also.

Teleauctions expand the market area on the selling side because cattle can be auctioned from several assembly points or directly from several farms or ranches at a single auction. You may transport your cattle just as far as if they were sold at a local auction, but you market them at a larger-volume auction. If possible, your cattle are sold while they remain on farms or ranches and are transported directly to buyers after the auction. That enables buyers to purchase a large supply of cattle in a short period of time at a single auction but have them delivered over a period of time. Delivery may be spread over a 7- to 10-day period after the auction.

Because teleauctions market cattle on a description basis rather than by visual inspection, your cooperative must use a clearly understood and consistent set of criteria to describe cattle. Teleauction marketing, with many participating buyers, can

mean increased price competition compared to receiving only one or two bids for cattle. Competitive pricing and description marketing combined can more accurately transmit buyer preferences for cattle from buyers back to sellers through market prices. You more nearly receive what your cattle are worth and can more accurately determine buyer preferences for cattle.

Price Information Improves

Your cooperative can provide a valuable service for you by supplementing readily available market and price information with information generated by you and other members, custom operators (growers, feeders, and meat packers), and cattle buyers. Your cooperative assembles the data, analyzes and interprets it, and distributes results to you.

Price information, as you know, is extremely important. The U.S. Department of Agriculture, State universities, and numerous trade publications provide you with market and price outlook information. Your cooperative can supplement that by analyzing prices paid at its teleauctions. Because cattle are marketed on a description basis, you can learn the difference a given trait makes in terms of prices paid by buyers. For example, the difference between a 600-pound, choice grade, Hereford steer versus a 600-pound, choice grade, Hereford-Angus steer. Thus, you can learn the price differences for variations in weight, sex, grade, condition, breed, and other descriptive traits.

Through your cooperative's contract integration programs, you receive information on the performance of your cattle through the growing and feeding stages and the performance of cattle "on the rail." Your

cooperative ensures cattle-to-owner identity is maintained (using ear tags or brands) and that performance records are kept to return performance information to you. Performance information, combined with auction results, can aid you in making intelligent production and marketing decisions.

Data you and other members provide (for example, cattle inventory, estimated increase or decrease in cattle numbers, and expected marketings throughout the year) aid your cooperative in planning the marketing and merchandising of your cattle.

Want More Information?

Detailed information on the organization and operation of this integrated marketing system can be found in "A Contract Integrated, Cooperative Cattle Marketing System," Marketing Research Report 1078. The report details a mutual marketing commitment by you and your cooperative. It explains the operation of each of your integration options (feeder cattle growing, cattle finishing, and cattle slaughtering) and the integration option of your cooperative (beef processing and marketing). The report also discusses operation of the cattle marketing program (both the teleauction exchange system and information system).

For copies of the report, write: Farmer Cooperative Service, U.S. Department of Agriculture, 500 12th Street, S.W., Washington, D.C. 20250.



FARMER COOPERATIVE SERVICE
U.S. DEPARTMENT OF AGRICULTURE

Farmer Cooperative Service provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The Service (1) helps farmers and other rural residents obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

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